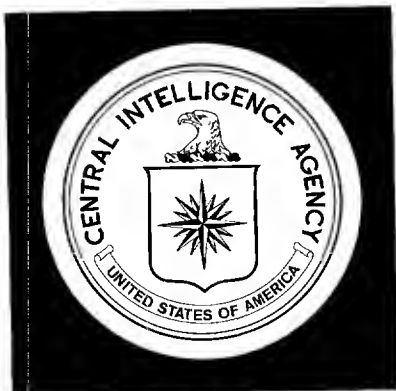


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DIRECTORATE OF  
INTELLIGENCE

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**Nº 42**

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USSR-CHILE: President Allende's recent visit to Moscow apparently did not result in any significant change in Moscow's cautious policy toward economic aid to Chile.

Allende was accorded the usual round of official ceremonies and met on several occasions with the top Soviet leaders. Before and during the visit, lower level officials held intensive talks on aid matters. The joint communiqué issued on 10 December cited general areas of the Soviet aid commitment, but gave no indication that hard currency assistance would be forthcoming. [REDACTED]

[REDACTED] an economic delegation remained behind to work out the "concrete measures" promised in the communiqué. This delegation reportedly consists largely of Chilean Communist Party members. The president of the Chilean Central Bank, who accompanied Allende to Moscow, has said that a program of permanent and definitive economic exchanges would be set up to make unspecified Chilean economic sectors complementary with the Soviet economy.

The Soviets' own current economic difficulties will make it more difficult for them to meet Chilean needs, particularly in the realm of hard currency which Santiago urgently requires. The communiqué, in fact, implies that the bulk of any "new" aid will involve Chilean utilization of about \$200 million in project and commodity credits extended in earlier agreements.

The generally bland communiqué did not contain the standard invitation for a return visit by the Soviet leadership. The Chileans reportedly opposed including such an invitation for fear that it would complicate Allende's already delicate domestic situation. The communiqué avoided specific criticism of the US, relying instead on pro forma references to "international monopolies" and national sovereign rights in the exploitation of natural resources.

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The Chileans won last-minute inclusion in the communiqué of a pledge to coordinate positions on Law of the Sea matters for the UN-sponsored conference to commence in Santiago in 1974. The subject was discussed at length because Chile and several Latin American states claim a 200-mile offshore limit. This conflicts with the Soviets' distant-waters fishing interests.

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FRANCE: There is considerable sentiment in official circles for a generally tough French stance on the multilateral trade negotiations expected to begin late next year under GATT auspices.

The comments of Jean-Pierre Brunet, director of economic affairs in the Foreign Ministry, reflect widely shared opinions, many of which run contrary to US hopes for the negotiations. Brunet nevertheless emphasized that Paris had not yet focused on all of the issues and that he was offering personal views. As could be expected, these differed from US positions most widely on agriculture. He noted that France still tends to favor an international commodity agreement to deal with trade in grains and that achieving this is the key to agreement on agriculture.

Even more troublesome may be Brunet's view of the GATT negotiations which are to determine whether outsiders are due compensation for the possible adverse effects on them of the EC's enlargement. Brunet believes that Paris will not want to make any concessions in these negotiations, which are to precede the multilateral trade talks. The community, he said, could not be expected to reduce agricultural protection in the first set of negotiations and then be called on to liberalize further in the subsequent bargaining.

Brunet reiterated the French view that "for some years to come" the EC's common external tariff would continue to be an indispensable element of community cohesiveness and that Paris thus opposed the complete elimination of industrial tariffs. He did suggest that the community might eventually propose "harmonizing" the industrial tariffs on the developed countries, possibly at three separate levels: manufactured goods, semi-processed goods, and raw materials.

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Brunet remarked that, because of the complexity of negotiating non-tariff barriers to trade, Paris had thus far made no progress in determining its policy in this area--which many consider the heart of future trade liberalization efforts.

On the question of whether a failure of the US to obtain a clear and precise negotiating mandate from Congress would kill all prospects for the multilateral negotiations, Brunet was less categorical than other recently reported official remarks had been. He, nevertheless, indicated there was considerable French concern on this score and that Paris still hopes for a strong congressional mandate.



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UK: A leveling off of economic growth and a weakening international payments position will create major policy difficulties for London next year.

After a rapid rise in the third quarter of 1972, economic growth has slowed to about four percent, according to the prestigious National Institute for Economic and Social Research. In November, the trade deficit rose to \$190 million, ending a steady improvement in the trade balance since the end of the dock strike in August. With prices rising at about eight percent annually, inflation continues to threaten Britain's international competitiveness.

The Heath government is focusing on the problems of inflation and its impact on the international sector, and will probably opt for less stimulus to the economy to slow the rise in prices and improve the trade balance. Such action, however, could create domestic problems by slowing growth and adding to the already difficult problem of unemployment.

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MALAGASY REPUBLIC: General Ramanantsoa's seven-month-old government is increasingly troubled by rivalry between the island's two main tribal groups.

A dispute over reforms in the educational system is the most immediate cause of heightened tension between the wealthier, better educated Merina of central Madagascar and the cotier (coastal) tribes. The dispute has split the national student coalition formed after the downfall of former president Tsiranana, himself a cotier, last May. Cotier students believe the reforms, designed to reduce French influence, are working to the benefit of the Merina. The cotiers particularly resent the imposition of the Malagasy language, which is essentially Merina, and they want Merina teachers replaced by cotiers. The government has imposed a curfew on the coastal city of Tamatave and sent security reinforcements there following clashes between Merina and cotier students. During the rioting a large hotel was destroyed by fire and a prison reportedly set afire. Cotier students in other coastal towns are reported restless.

Many cotiers, including some officials, believe the government is acquiring an increasingly Merina complexion and will try to impose Merina domination on the numerically larger and once politically dominant cotiers. Ramanantsoa, a Merina, is acutely aware of cotier sensitivity and appointed members of both groups to his cabinet. The better qualified Merina, however, hold almost all the key ministries, and Ramanantsoa's close personal advisers are Merina. Cotier fears are ready-made for exploitation by ousted cotier officials of the Tsiranana regime.

Ramanantsoa, in a radio address on 13 December, cautioned against too rapid educational reform and promised the creation of a new national language synthesizing the major dialects. He

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faces a serious test in trying to hold the tribal rivalries in check. While assuaging cotier fears, he must also deal with dissatisfaction among radicals, mostly Merina, who believe the government is carrying out its promised reforms too slowly. [REDACTED]

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SOUTH KOREA: The National Council for Unification to be elected on 15 December will re-elect President Pak next week and serve merely as a rubber stamp for future regime policies. Candidates for the 2,359 seats on the Council have been largely handpicked by the government, and the closely controlled campaign has generated little public enthusiasm. Regime confidence that it can carry out this process with no difficulty has prompted it to lift some security regulations and restore a few democratic trappings. After reopening universities early this month, the government on 14 December rescinded its two-month-old martial law decree and announced that it will lift the ban on political activity after the presidential inauguration on 27 December. Other extensive government controls are to remain in force, however, and will continue to forestall any active opposition. [REDACTED]

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MALAYSIA: The government's budget for 1973 is designed to stimulate the sluggish economy and reduce the high unemployment rate. Malaysia's economic growth rate fell drastically from about seven percent annually during the late 1960s to only two percent in 1971, but has recovered somewhat to almost four percent this year. The slowdown was due largely to declining world prices for Malaysia's major export commodities and stagnating private investment. The new budget offers several inducements to encourage both domestic and foreign investment, including a reduction of the minimum development tax to aid small investors, a liberalization of tax allowances on export sales, and provisions for customs-free warehouse facilities. By encouraging industrial development, Kuala Lumpur hopes to cut into the high unemployment rate, which has been running at about eight percent for the past several years. [REDACTED]

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SRI LANKA - CHINA: Peking has fulfilled its outstanding military aid commitments to Colombo with the delivery of a fifth Shanghai II class motor gunboat. The boats, which are to be used as coastal patrol craft, were promised to Colombo during the insurrection in April 1971. Almost \$1 million worth of ground forces equipment also was offered at that time but was not accepted by Colombo until March 1972. Delivery of this equipment, including 12 85-mm. field guns, was completed by mid-year. In the future, Sri Lanka will seek to obtain virtually all its military needs from traditional Western sources. [REDACTED]

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